

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

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ISSUE 1: Federal Funds Overview

DESCRIPTION: The Governor's Budget estimates that California will receive **\$6.3 billion** in federal funds for K-12 education in 2007-08. However, the Department of Finance has not yet updated its federal fund estimates to reflect the final appropriations measure for federal fiscal year (FFY) 2007. The Department of Education will provide an update of new federal funding estimates for California.

BACKGROUND: The table below reflects federal funds that will be appropriated by the U.S. Department of Education (USDE) to California for FFY 2007, which coincides with the state 2007-08 fiscal year. These amounts reflect the appropriations from the final continuing resolution for education signed by the President in February 15, 2007. March 2007. **Attachment A** summarizes federal grants for the FFY 2001-2007, provided by the USDE on April 5, 2007.

Federal Local Assistance Grants to California

Budget Item	Program	FFY 2006	FFY 2007	Change
6110-				
102-0890	Learn and Serve America	2,619,000	1,799,000	-820,000
103-0890	Byrd Honors Scholarship	5,127,000	5,241,000	114,000
112-0890	Charter Schools	23,869,000	23,869,000	0
113-0890	State Assessments	33,952,540	34,215,508	262,968
119-0890	Title I (Part D) - Neglected and Delinquent	2,835,780	2,812,194	-23,586
123-0890	Title V – Innovative Programs	12,321,975	12,420,932	98,957
125-0890	Title III - Migrant Education	125,572,327	130,750,549	5,178,222
125-0890	Title III – Language Acquisition Grants	166,955,253	169,057,668	2,102,415
126-0890	Title I (Part B) - Reading First Grants	144,886,608	136,987,926	-7,898,682
136-0890	Title I (Part A) – Basic Grants & School Improvement Set Aside	1,723,482,942	1,629,665,898	-93,817,044
136-0890	School Improvement Grants	0	16,561,217	16,561,217
136-0890	Even Start	11,909,704	9,377,969	-2,531,735
136-0890	Homeless Education	8,288,438	7,682,978	-605,460
137-0890	Rural/Low-Income School Program	1,177,127	1,177,127	0
156-0890	Adult Education	80,605,056	79,748,370	-856,686
161-0890	Special Education-Entitlement Grants	1,130,940,237	1,150,175,848	19,235,611
	Special Education-Preschool	38,677,085	38,677,082	-3
166-0890	Vocational Education & Tech. Prep.	139,986,152	140,775,071	761,919
180-0890	Education Technology	34,985,639	32,629,206	-2,356,433
183-0890	Safe and Drug Free Schools	41,539,958	41,539,958	0
193-0890	Title II (Part A) Math & Science Partnerships	25,055,987	23,634,838	-1,421,149
195-0890	Title II (Part A) – Teacher Quality Grants & State Activities	335,450,834	332,042,670	-3,408,164
197-0890	21st Century Community Learning	131,320,892	127,685,271	-3,635,621
TOTAL				-73,059,254

Overall, federal funds to California will decrease by **\$73.1 million** in 2007-08 (FFY 2007). Approximately half of the federal grant programs to California will decrease. Most notably, Title I Basic Grants – the largest federal grant program for our state -- will decline by **\$93.8 million** (5.4 percent). In contrast, Special Education will grow by **\$19.2 million** (1.7 percent) in 2007-08, after a small reduction in 2006-07. In addition, a new School Improvement program will provide **\$16.6 million** in additional funding for NCLB accountability activities in California.

Comments: While federal funds to California grew between \$60 million and \$154 million annually between FFY 2001 and 2005, this trend reversed in FFY 2006 when funds for our state decreased by **\$154 million**. While the year-to-year loss to California will be somewhat lower for FFY 2007 --\$73.1 million – this is still a loss of important funding for our state. The major change in FFY 2007 is the loss of **\$93.8 million** in Title I grants to school district that reflects California's declining share of poverty funds.

ISSUE 2: Local Assistance Federal Funds Adjustments -- April Finance Letters (Consent Items)

Staff recommends approval of the following federal local assistance revisions to the Governor's January 10 Budget, as proposed by the April 2007 budget letters from the Department of Finance. No issues have been raised by any of these items. Federal funds adjustments are intended to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current programs and policies.

Federal Funds Adjustments – Various Local Assistance Budget Items

6110-102-0890, Local Assistance, One-time Carryover for the Learn and Serve America Program (Issues 263 and 264)

It is requested that this item be increased by \$162,000 to reflect additional one-time carryover funding to support additional service learning activities. It is also requested that this item be increased by \$3,000 to conform base federal expenditure authority to available grant funding.

It is further requested that provisional language be added as follows to conform to this action:

X. The funds appropriated in this item include a one-time carryover of \$162,000, available for the support of additional service learning activities during the 2007-08 fiscal year.

6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issue 791)

It is requested that this item be increased by \$114,000 to align the appropriation with available federal funds. The funds will be used to promote student excellence and achievement by awarding scholarships solely on the basis of academic merit to recognize students who show promise of continued academic excellence.

6110-112-0890, Local Assistance, Public Charter Schools (Issue 980)

It is requested that this item be reduced by \$2,423,000 to align the appropriation authority with the anticipated federal grant award amount. Public Charter School funds are used to fund start-up, implementation, and best practices dissemination for charter schools.

6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 646)

It is requested that this item be decreased by \$53,000 to align appropriation authority with the anticipated federal grant. Federal Neglected and Delinquent Children Program

funds are used to address the educational needs of neglected and delinquent children and to provide education continuity for children in juvenile institutions.

6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 839)

It is requested that this item be increased by \$104,000 to align the appropriation with the anticipated federal grant award. These grant funds are provided to districts to develop and implement innovative educational programs intended to improve school, student, and teacher performance.

6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 642, 643, 649, and 650)

It is requested that Schedule (1) of this item be increased by \$6,576,000. This adjustment includes an increase of \$2,976,000 to align the Migrant Education Program appropriation with the anticipated federal grant and an increase of \$3.6 million to reflect the availability of one-time federal carryover funds. These funds will be used to meet the educational needs of highly mobile children whose family members are employed in seasonal occupations. The program provides supplemental services to support the core academic program children receive during the regular school day.

It is further requested that provisional language be added, as follows, to conform to this action:

X. Of the funds appropriated in Schedule (1), \$3,600,000 is provided in one-time carryover funds to support the existing program.

It is further requested that Schedule (3) of this item be increased by \$5,771,000. This adjustment includes an increase of \$3,871,000 to align the English Language Acquisition Program appropriation with the anticipated federal grant and an increase of \$1.9 million to reflect the availability of one-time carryover funds. These funds will be used to help students attain English proficiency and meet grade level standards.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in Schedule (3), \$1,900,000 is provided in one-time carryover funds to support the existing program.

6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 645)

It is requested that this item be decreased by \$498,000 to align appropriation authority with the anticipated federal grant. Rural/Low-Income School Program funds are used to improve instruction and achievement for children in rural and low-income schools by supporting activities such as teacher recruitment and retention, professional development, educational technology projects, and parental involvement activities.

6110-156-0890, Local Assistance, One-time Carryover for Adult Education (Issue 262)

It is requested that this item be increased by \$2,348,000 to reflect additional one-time carryover funding to support adult education programs, with provisional language added to specify that these one-time funds be used to ensure compliance with federal reporting requirements.

It is requested that provisional language be added as follows to conform to this action:

X. The funds appropriated in this item include a one-time carryover of \$2,348,000, available for the support of additional adult education instructional activities and may be used by local providers to upgrade data collection and other software systems to ensure compliance with federal adult education reporting requirements as specified in Public Law 109-77.

6110-166-0890, Local Assistance, One-time Carryover for Vocational Education (Issue 261)

It is requested that this item be increased by \$10,718,000 to reflect additional one-time carryover funding to support vocational education programs, with provisional language added to specify that these one-time funds be used to expand and align K-12 tech prep programs with community college economic development programs.

It is requested that provisional language be added as follows to conform to this action:

X. The funds appropriated in this item include a one-time carryover of \$10,718,000. These funds shall be used during the 2007-08 academic year to support additional vocational education institutional activities, with first priority being given to supporting curriculum development and articulation of K-12 technical preparation programs with local community college economic development and vocational education programs in an effort to incorporate greater participation of K-12 students in sequenced, industry-driven coursework that leads to meaningful employment in today's high-tech, high demand, and emerging technology areas of industry employment.

6110-180-0890: Local Assistance, Education Technology Program (Issue 051)

It is requested that this item be reduced by \$2,233,000. This proposal would realign the program budget with the new federal grant. The reduction would be allocated proportionately among competitive grants, formula grants, and the California Technology Assistance Project. We note that at least \$250 million in private funds is available to local education agencies directly as a result of a settlement with Microsoft, which will help mitigate the impact of the federal reduction.

It is further requested that Provisions 1, 2 and 3 be amended as follows:

"1. Of the funds appropriated in this item, ~~\$16,662,000~~ \$15,569,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.

2. Of the funds appropriated in this item, ~~\$16,662,000~~ \$15,569,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program including the eligibility criteria established in federal law to target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs.

3. Of the funds appropriated in this item, ~~\$701,000~~ \$654,000 is available for the California Technology Assistance Project (CTAP) to provide federally required technical assistance and to help districts apply for and take full advantage of the federal Enhancing Education Through Technology grants."

6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issues 788 and 789)

It is requested that this item be increased by \$3,211,000. This adjustment includes an increase of \$811,000 to align the appropriation with the anticipated federal grant. In addition, this adjustment includes an increase of \$2.4 million to reflect the availability of one-time carryover funds from 2006-07. These funds will be used to support programs that prevent violence in and around schools, prevent the illegal use of alcohol, tobacco, and drugs, and involve parents and communities.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$2,400,000 is a one-time carryover available to support the existing program.

6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issues 089 and 093)

It is requested that this item be increased by \$2,176,000. This adjustment includes a decrease of \$1,426,000 to align Title II, Part B of the Elementary and Secondary Education Act (Mathematics and Science Partnership Program) appropriation with the anticipated federal grant award and an increase of \$3,602,000 to reflect the availability of one-time carryover funds. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

It is further requested that provisional language be added, as follows, to conform to this action:

X. Of the funds appropriated in this item, \$3,602,000 is provided in one-time carryover funds to support the Math and Science Partnership Program.

6110-195-0890, Local Assistance, Title II Improving Teacher Quality Local Grants (Issue 086)

It is requested that this item be decreased by \$4,683,000 to align with appropriation authority for the Teacher and Principal Training and Recruiting Fund with the anticipated federal grant award. This program provides an apportionment to local education agencies for activities focused on preparing, training, and recruiting high-quality teachers.

ISSUE 3. Federal Forest Loan Program (6110-650-0001)

DESCRIPTION: The Governor proposes a one-time General Fund loan of **\$69 million** in 2006-07 to backfill the loss of federal aid from the Secure Rural Schools program to school districts and community colleges in rural areas of the state. The Governor proposes urgency legislation – **SB 133 (Aanestad)** -- to authorize the State Controller to make these loans in 2006-07. Districts would be required to fully repay these loans, with interest, in 2007-08.

BACKGROUND: For more than one hundred years, the federal government has been returning a portion of revenues from federal forest reserves to surrounding communities. These federal forest reserve funds were intended to compensate surrounding communities from the loss of revenues when these lands were removed from the tax base. Rural communities relied upon these tax revenues to supplement local funding for schools and roads.

In the mid-1980s, revenues from forest reserves began to decline, due in large part from a decline in timber sales. In 2000, the federal government created the Secure Rural Schools and Community Self-Determination Act to provide transitional assistance to rural communities for schools and roads due to the decline in timber revenues. The Secure Rural Schools Act expired in 2006; the last authorized payment was made in December 2006. While Congress authorized funding for one additional year – through 2007 -- no funds have been appropriated yet.

President Bush has indicated a commitment to providing transitional assistance to counties and States covered under the Secure Rural Schools act. The President's 2008 budget proposes funding through the U.S. Department of Agriculture for the National Forest Land Adjustment for Rural Communities Act.

Governor's Budget Proposal: The Governor's budget sets aside \$69 million in 2006-07 funds for the purpose of providing short term loans to schools in rural areas of the state that are currently losing federal aid from the Secure Rural Schools program. The Governor is proposing **SB 133 (Aanestad)**, an urgency measure, to authorize this loan program. The bill would:

- Authorize the state controller to make loans from the General Fund during 2006-07 to authorize the State Controller to make these loans in 2006-07 to school districts and community colleges that have not received federal forest reserve funds in 2006-07.
- Requires that requests for loans be submitted to the SPI within 30 days of the effective day of the measure and that requests justify the amount needed.
- Limits loans to the amount of federal forest reserve funding that the school or

community college district received during the 2005-06 year.

- Provides that loans be fully repaid on or before June 30, 2008, along with interest calculated at the rate earned by the General Fund in the Pooled Money Investment Account on the date the loan was issued.
- Requires the SPI to approve or deny loans within 60 days of the effective date of the measure and that the Controller issue loans within 90 days of the effective date of the measure.
- Provides that the measure self-repeals on January 1, 2009.

COMMENTS: California schools were estimated to receive approximately **\$29.4 million** in revenues from the Secure Rural Schools program in 2006. The Governor has set aside **\$69 million** in 2006-07 funds to replace these funds, which provides more than double what schools received in federal funding in 2006. It is possible that federal funds will not be appropriated for 2007 (2007-08) and that schools will have to pay the state back without the benefit of offsetting federal revenues. Some schools rely heavily on these federal funds. For many eligible school districts, these federal funds comprise 15 to 30 percent of their budgets. These districts may risk fiscal insolvency and require a state emergency loan if they are required to pay the state back. This would compound General Fund risk. It should also be recognized that the federal government may never reappropriate funding for the Secure Rural Schools program. The federal supplemental appropriations bill that contains funding for the program is very uncertain, as it is tied to actions on the war in Iraq.

ISSUE 4: Fiscal Status of School Districts –FCMAT Presentation

DESCRIPTION: Presentation by Joel Montero, Deputy Executive Officer, Fiscal Crisis & Management Assistance Team (FCMAT) on the financial status of school districts.

BACKGROUND:

Interim Financial Status Reports. Current law requires school districts and county offices of education (LEAs) to file two interim reports annually on their financial status with the California Department of Education. First interim reports are due to the state by January 15 of each fiscal year; second interim reports are due by April 15 each year. Additional time is needed by the Department to certify these reports.

As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative. A positive certification indicates that a LEA will meet its financial obligations for the current and two subsequent fiscal years; whereas a qualified certification indicates a LEA may not meet its financial obligations during this period. Under a negative certification, LEAs are unable to meet their financial obligations in the current year or in the subsequent fiscal year.

According to the First Interim Report for 2006-07 – the most recent report available – there are currently three school districts with negative certifications and 19 school districts with qualified certifications. **Attachment B** provides a complete listing of negative and qualified certifications. The three school districts with negative certifications listed below will not be able to meet their financial obligations for 2006-2007 or 2007-2008.

District	County	Budget
Vallejo Unified	Solano	\$142.8 million
Parlier Unified	Fresno	\$27.8 million
Biggs Unified	Butte	\$6.4 million

All three schools districts on the negative list for the First Interim Report this year -- Vallejo Unified, Parlier Unified and Biggs Unified – were also on the negative list for the First Interim Report last year.

According to FCMAT, the number of school districts with negative and qualified certifications will reportedly increase when the Second Interim Report for 2006-07 is released by CDE later this spring.

State Emergency Loan Recipients. A school district governing board may request an emergency apportionment loan from the state if the board has determined the district has insufficient funds to meet its current fiscal obligations. Current law states intent that

emergency apportionment loans be appropriated through legislation, not through the budget. The conditions for accepting loans are specified in statute, depending on the size of the loan.

For loans that exceed 200 percent of the district's recommended reserve, the following conditions apply:

- The State Superintendent of Public Instruction (SSPI) shall assume all the legal rights, duties, and powers of the governing board of the district.
- The SSPI shall appoint an administrator to act on behalf of the SSPI.
- The school district governing board shall be advisory only and report to the state administrator.
- The authority of the SSPI and state administrator shall continue until certain conditions are met. At that time, the SSPI shall appoint a trustee to replace the administrator.

For loans equal to or less than 200 percent of the district's recommended reserve, the following conditions apply:

- The SSPI shall appoint a trustee to monitor and review the operation of the district.
- The school district governing board shall retain governing authority, but the trustee shall have the authority to stay and rescind any action of the local district governing board that, in the judgment of the trustee, may affect the financial condition of the district
- The authority of the SSPI and the state-appointed trustee shall continue until the loan has been repaid, the district has adequate fiscal systems and controls in place, and the SSPI has determined that the district's future compliance with the fiscal plan approved for the district is probable.

Five school districts are currently receiving state emergency loans – Emery Unified, Oakland Unified, Richmond/West Contra Costa Unified, Vallejo Unified, and West Fresno Elementary. **Attachment C** summarizes the amounts of these emergency loans and the status of repayments.

Oakland Unified and West Fresno Unified, which are both receiving emergency loans from the state, were on the negative list for the First Interim Report last year, but are on the qualified list this year. Two other districts with emergency loans -- West Contra Costa Unified and Emery Unified -- are not on either the negative or qualified certification lists for the First Interim Report.

Annual Reports for Districts Receiving Emergency Loans. Legislation appropriating emergency state loans to school districts requires the preparation of annual written status reports for assessing the progress of schools districts in meeting their improvement plans. These reports are prepared by FCMAT for a two year period through funds provided in

emergency loan legislation for each district. There is no process for funding these reports in subsequent years, if progress reports continue to be needed.

The 2006-07 budget authorized FCMAT to utilize any unexpended funds available from prior years to fund additional annual written progress reports for the Oakland Unified School District, the West Fresno Elementary School District and the Vallejo Unified School district. The Governor's Budget does not propose to continue this authority for FCMAT in 2007-08, as currently proposed. According to the Department of Education, the following amounts are needed to continue state funding for the progress reports: \$150,000 for Oakland Unified; \$125,000 for Vallejo Unified; and \$110,000 for West Fresno Unified \$110,000.

Comments: Staff recommends that at May Revise the Subcommittee approve language included in the 2006-07 budget reappropriating unexpended funds to cover the 2007-08 costs for annual progress reports for Oakland Unified, Vallejo Unified and West Fresno Unified.

ISSUE 5. School District Fiscal Solvency Grants (6110-650-0001)

DESCRIPTION: The 2006-07 budget provides **\$10 million** in one-time funds grants for fiscal solvency planning. Of this amount, **\$9 million** is available for school districts and charter schools to reimburse their costs of developing management plans for addressing long-term unfunded liabilities related to retiree health benefits. In addition, **\$1 million** is available to county offices of education for review of district plans. The Department of Education will provide a status report on the implementation of this program.

BACKGROUND: The 2006-07 budget trailer bill -- AB 1802 (Chapter 79, Statutes of 2006), as modified by Senate Bill 1131 (Chapter 371, Statutes of 2006) -- appropriates **\$9 million** in one-time settle-up funds to school districts and charter schools for fiscal solvency planning. Specifically, these measures provide funding of up to \$15,000 per school district and charter schools that have completed management plans to meet their outstanding long-term fiscal obligations for retired employee non-pension benefits.

The Governmental Accounting Standards Board (GASB) Statement 45, released in June 2004, defines other post-employment benefits (OPEB) and establishes standards for employers to measure and report their costs and obligations relating to OPEB.

The authorizing legislation also provides **\$1 million** statewide for county offices of education to consider district management plans during the review of a district's budget.

Requirements for Grant Funds: In order to receive fiscal solvency planning funds, districts and charter schools must complete a management plan for meeting their OPEB obligations. The Superintendent of Public Instruction (SPI) is required, pursuant to Chapter 371, Statutes of 2006, to specify the elements included in the plan. Plans must be approved by the governing board of the school district or charter school. School districts must then submit their plans to their county superintendents for review. Charter schools must submit their plans to their authorizing entities; no other review is required.

Funding Available: Districts and charter schools will be reimbursed for their actual costs, up to \$15,000, for activities related to developing the plan for meeting their OPEB obligations. Applications will be funded on a first-come basis. Given maximum grants of \$15,000 per LEA, the Department of Education estimates that the \$9 million appropriated will fund approximately 600 LEAs statewide.

Program Implementation: According to the Department of Education, application grants were issued February 23, 2007, and are due back to the department by May 15, 2007. Grantees are expected to be notified by June 29, 2007.

Comments: While funds appropriated in the 2006-07 trailer bill for fiscal solvency planning are one-time Proposition 98 funds, these funds remain available for expenditure over a three-year period.

ISSUE 6. Chief Business Officer Training Program (6110-650-0001)

DESCRIPTION: The Governor proposes **\$2.5 million** in one-time Proposition 98 funds to fully fund eligible candidates for the Chief Business Officers (CBO) Training Program. The Governor's proposal continues one-time funding for this program, which provides incentive funding for training of chief school business or financial officers employed by school districts and county offices of education.

BACKGROUND: The CBO Training Program, as established by Chapter 356, Statutes of 2005 (SB 352/Scott), is administered by the Superintendent of Public Instruction, with the approval of the State Board of Education. The purpose of the program is to provide rigorous training to chief business and financial officers in order to improve the financial management of school districts and county offices of education. The statute requires, but is not limited to, instruction and training in the following areas:

- (1) School finance, including revenue projection, cash flow management, budget development, financial reporting, monitoring controls, and average daily attendance projections and accounting.
- (2) School operations, including matters relating to facilities, maintenance, transportation, food services, collective bargaining, risk management, and purchasing.
- (3) Leadership, including organizational dynamics, communication, facilitation and presentation.

The program is required to provide at least 200 hours of training. Of this amount, 40 hours is required for intensive individualized support and professional development in the above areas. Eligible training candidates include individuals employed full-time as chief business or financial officers by school districts or county offices of education, or individuals nominated by school districts or county offices of education.

Funding is intended to serve 350 eligible training candidates per fiscal year at a rate of \$3,000 per candidate. Priority for enrollment is given to eligible candidates from districts that are currently operating with a state-appointed administrator or trustee, or from districts that have received a negative or qualified budget certification within the last five years.

The 2005-06 budget appropriated \$1.05 million in one-time funds as the first installment in funding for the program. Due to delays in implementing the program in the first year, these one-time funds were reappropriated in 2006-07. The Governor proposes another \$2.5 million for the second year of the program in 2007-08.

COMMENTS: The CBO Training Program was intended to reach chief business or financial officers in schools districts and county offices statewide over a three year period. For this reason, one-time funding is an appropriate source of funding for the program. The State Board of Education is required to submit an interim report on the program to the Legislature by September 30, 2007. A final report is due to the Legislature by August 31, 2008.

ISSUE 7: California School Information Services (CSIS) Program

DESCRIPTION: The Governor's budget provides \$6.1 million for the CSIS program in 2007-08, which continues funding at the 2006-07 level. The Department of Education has asked the Administration to consider two budget requests for CSIS that would provide staffing, services and technology necessary to support the California Longitudinal Pupil Achievement Data System (CALPADS).

BACKGROUND: CSIS is a multi-year project to develop, implement and manage a statewide student level database and information transfer network. CSIS was authorized by AB 107, as enacted in 1997. The three major goals for CSIS are: 1) to build local capacity to use student information systems to inform education decisions; 2) to enable districts to electronically transfer student records between each other and to higher education institutions; and 3) to assist districts in electronically transmitting state-required reports to CDE.

CSIS is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), which is part of the Kern County Office of Education. School districts that volunteer to participate in the program receive state incentive funding and technical assistance. CSIS participating districts represent roughly half of the K-12 student population.

While separate from CALPADS, the CSIS project has also funded issuance and maintenance of individual student identifiers as required by state law and needed for CALPADS. As of June 2005, all school districts statewide were issued individual, non-personally identifiable student identification numbers for their students.

2006-07 Budget: Last year's budget provided **\$29.5 million** for a new "CSIS-lite" program to provide funding for non-CSIS districts and some charter schools so that they can become ready for CALPADS implementation (\$20 million from the Educational Telecommunications Fund and \$9.5 million in one-time Proposition 98 funds). This program has been named the Best Practices Cohort program, and will help prepare LEA participants to collect, maintain, and submit student and teacher level data to CALPADS. The program is voluntary, and the more than 1,000 districts and independently-reporting charters that are not currently participating in CSIS are eligible to participate. The program provides one-time funding and some technical assistance to provide the districts and charter schools with the main improvements in information technology systems that are usually associated with participation in CSIS. This proposal was developed by the Administration, in consultation with CDE and the LAO. The 2006-07 budget also provided approximately **\$1.5 million** (allocated \$500,000 each year in 2006-07, 2007-08, and 2008-09) for CSIS to implement the new proposal.

CDE Proposal – Additional CSIS Support for CALPADS. CSIS is requesting **\$600,000** so that CSIS can meet the 2007-08 work requirements defined in the CALPADS Request for Proposal (RFP) and the October 21, 2005 report to the Department of Finance. This funding will support 3.9 FTE for CSIS and 50 percent of a CSIS contractor to serve as subject matter experts for the design and development of

CALPADS and to support knowledge transfer between the vendor and CSIS, so that CSIS is able to support CALPADS after the vendor's commitment ends.

The CALPADS RFP obligates California to provide 1.5 FTE in CSIS resources to the CALPADS vendor in 2007-08. The other resources are necessary to provide expertise on local needs and systems, the CSIS Data Dictionary, file formats, data submission requirements, and compatibility with CSIS capable systems.

Comments: According to CDE, California has invested millions in CSIS and CSIS-capable local systems. Providing this funding will ensure that legal obligations to the CALPADS vendor are met and the investment in CSIS is appropriately leveraged as CALPADS is developed.

CDE Proposal – Augmentation for CSIS Central Operations. CSIS is requesting an increase of **\$1,630,000** in CSIS central operations funding to:

1. maintain system stability,
2. adequately test software before deployment, and
3. provide assistance to local education agencies (LEAs).

The request includes \$380,000 for computer servers and 2.0 staff positions devoted to keeping the system stable; \$140,000 in testing software and 2.5 positions for improved testing, 5.5 positions for improved client support; and 1.0 position to maintain necessary system and program documentation.

The report for the period of October 6, 2006 – January 5, 2007, by the Independent Oversight Consultant (IPOC) dated March 8, 2007, identified the top three issues and risks to CSIS as: 1) development timelines exceeding staff resources; 2) CSIS constrained resources; and 3) performance issues with CSIS technical infrastructure.

According to CDE, the next quarterly report is under development and IPOC has notified CSIS that they intend to again raise concerns about stability of the system, adequate testing, and the inability of CSIS to respond to LEAs in a timely manner due to resource constraints. The system had 43 unscheduled outages during the past quarter, and in January 2007 alone, CSIS received nearly 4,000 requests for LEA assistance, far exceeding the ability of CSIS to support LEAs in an effective or efficient fashion.

Comments: According to CDE, CSIS does not have sufficient resources to meet its needs. The data collected by CSIS will be used to determine graduation and dropout rates and trends and also will be used to populate CALPADS when it is implemented. Adequate resources should be provided to ensure California has quality data necessary to inform its decisions. In addition, a stable system and well functioning process experienced by LEAs is critical for a smooth and successful transition to CALPADS. Without additional resources, the Department of Education is concerned this will not be accomplished.

ISSUE 8: Program Improvement (PI) Schools & Districts (6110-136-0890)

DESCRIPTION: The Governor's Budget provides **\$49.8 million** in federal Title I set-aside funds for low performing schools and districts identified as needing "Program Improvement" (PI) under the federal No Child Left Behind (NCLB) Act in 2007-08. The Governor's budget does not appropriate an additional **\$15.2 million** in additional in Title I set-aside base funding and **\$45 million** in one-time Title I set-aside funds. In addition, the Governor's budget does not reflect the availability of **\$17.6 million** in new, ongoing federal Title I funds for school and district improvement. The Administration will likely update their proposals as part of the May Revision. The Department of Education will present proposals for expending additional Title I federal funds available in 2007-08. CDE will also provide an update on implementation of NCLB accountability provisions in California.

BACKGROUND: The federal No Child Left Behind Act allows states to "set-aside" four percent of their total Title I grant to help schools and districts improve their performance.

Status of Program Improvement Schools and Districts. According to the Department of Education, there are currently 2,218 Title 1 funded schools and 159 districts in California designated as Program Improvement. While the state has been identifying Program Improvement schools for a number of years, Program Improvement districts were just identified in the last two years.

Year	Program Improvement Schools	Program Improvement Districts
Year 1	700	59
Year 2	340	100
Year 3	484	0
Year 4	340	0
Year 5	354	0
TOTAL	2,218	159

Schools and districts must implement a range of services and/or interventions while they are identified as Program Improvement. If progress is not made, a range of sanctions apply. The soonest that program improvement districts could first face state sanctions is the fall of 2007.

Governor's budget. The Governor's budget provides **\$49.8 million** in ongoing Title I set-aside funds for 2007-08, as follows:

- **\$10 million** for the Statewide System of School Support, which are regional consortia providing technical assistance to schools and districts in need of improvement.

- **\$1.6 million** to support State Intervention and Assistance Teams (SAIT) that enter into contracts with Title I Program Improvement schools, HP schools, or II/USP schools that have failed to meet growth targets (\$75,000 per SAIT team assigned to an elementary or middle schools; \$100,000 for per team assigned to a high school).
- **\$22 million** to provide \$150 per pupil for schools to implement corrective actions resulting from their work with SAIT teams.
- **\$16.2 million** for school districts identified as program improvement, to help these districts work with external providers to perform assessments related to developing and implementing improvement plans. Districts receive \$50,000 plus \$10,000 per schools that is Title I supported from this set-aside.

According to the Department of Education, preliminary estimates are that an additional **\$77.8 million** is available in 2007-08 that is not included in the Governor's 2007-08 budget. This includes an additional **\$15.2 million** in continuing Title set-aside base funds and **\$45 million** in one-time Title I carryover funds are available for school and district improvement in 2007-08. In addition, there is **\$17.6 million** in new, ongoing Title I funds for school improvement grants in 2007-08. The Governor has not proposed to appropriate these funds to date, in part because of a lack of information about the final federal amounts available.

CDE Proposals for Expanding District-Based Supports and Interventions. The Department of Education has proposed a plan for expending the additional **\$77.8 million** new federal funds available in 2007-08. The Department proposes expending the new funds as follows:

- **\$ 7 million** increase for Statewide Systems of School Support;
- **\$28 million** increase in grants for PI Districts;
- **\$15.6 million** to add grants for Non-PI Districts with a number of PI schools; and
- **\$27 million** for a new DAIT program element to assist with corrective actions in PI districts.

CDE Proposal for District Intervention Teams. CDE has submitted a proposal to the Administration for utilizing district assistance and intervention teams (DAIT) to assist districts in making changes to improve their performance. This program is modeled after the department's intervention approach for schools. CDE has been piloting the DIAT approach in anticipation of the 100 PI districts that could be eligible for state interventions this fall if they fail to make AYP in their third year.

CDE Proposal for Technical Fix to Budget Schedule. The administration has proposed new budget control language for Title I funds that would allow CDE to adjust the above amounts based on the number of schools and districts that are ultimately identified as program improvement, after the budget passes. CDE is proposing an alternative technical fix that will restructure the item into schedules, which will allow for transfer of funds between areas in an easier and more timely manner. A copy of CDE's proposed technical changes to the Governor's budget language are included in **Attachment D**.

COMMENTS: The Administration will likely provide a new expenditure plan for Title I Set-Aside funds and the new federal School Improvement funds at May Revise. CDE and DOF are currently working to verify the level of additional funding available in 2007-08. The Department of Education indicates that because of the delay in obtaining final federal grants figures, Title I Set-Aside estimates, as reflected in this agenda, may change.

Staff recommends that the Subcommittee consider CDE's proposals for strengthening support for district-based support and interventions for districts, given research that supports the effectiveness of this approach.

Staff also recommends that the Subcommittee adopt the CDE proposal for adjusting the budget schedule for Title I Set Aside funds to make program adjustments reflecting workload easier within the budget year. A copy of CDE's proposal is included in **Attachment D**. CDE's proposed changes would separately schedule School Improvement and Even Start under Title I. The LAO supports these changes and recommends adding a new reporting requirement for School Improvement as a part of the CDE technical fixes. Staff recommends that the Subcommittee adopt this additional LAO change.

ISSUE 9: High Priority (HP) Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's budget proposes a total of **\$243 million** in 2007-08 for the High Priority (HP) Schools Grant program, the same level of funding appropriated in 2006-07. Of this amount, the budget continues **\$201 million** for a second cohort of HP schools and **\$10 million** (or whatever greater or amount is necessary) for corrective actions for HP schools. The Department of Education estimates current year and budget years costs for the HP program of \$130 million for each year, reflecting current program commitments. As a result, there are more than **\$100 million** in funding balances for the program in both 2006-07 and 2007-08, as currently proposed by the Governor. The Administration is still considering how to utilize these funds balances. The Department of Education will present two proposals for expending some of the HP fund balances in 2007-08. The LAO will also make recommendations for capturing these funds as savings and for expending some of these funds.

BACKGROUND: The High Priority Grant program, established in 2001, provides improvement funding to low-performing schools and provides state interventions and ultimately sanctions for schools that fail to improve. The HP program defines eligible schools to include any school with a valid API in deciles 1-5. The program gives first priority to decile 1 schools; second priority to decile 2 schools; third priority to decile 3 schools; fourth priority to decile 4 schools; and fifth priority to decile 5 schools.

HP Grants to Schools: In the first year of the HP program, schools selected to participate are eligible for planning grants of \$50,000. In subsequent years, schools receive implementation grants of \$400 per pupil or a total of \$25,000 for the school site, whichever is greater.

HP schools are generally eligible for implementation grant funding for three years. Schools that make significant growth, but do not make growth targets, are eligible for one additional year of funding. HP schools that fail to make significant progress will be subject to interventions and sanctions by the Superintendent of Public Instruction (SPI) and State Board.

Provisions of the *Williams* settlement agreement, as contained in Chapter 900/Statutes of 2004, declares legislative intent that new schools be added to the HP program when HP and II/USP schools are phased out. Specifically, Section 52055.662 of the Education Code reads:

It is the intent of the Legislature to appropriate any savings achieved as a result of schools being phased out of the Immediate Intervention Underperforming School Program and the High Priority Schools Grant Program to provide High Priority Schools Grant awards to eligible schools, pursuant to Section 52055.605 that have not previously received a grant under the program.

HP School Cohorts Funded. Funding for the first HP cohort was appropriated in the 2002-03 budget. The first cohort provided funding for 366 schools. Of these schools, 174 were in deciles 1 and 113 were in decile 2 of the API. A total of 203 of these schools exited the HP program and 28 schools remain in the program. Another five of these schools closed.

The 2005-06 budget provided funding for a second cohort of HP. Expenditure of these funds was contingent upon passage of legislation to address exit criteria for the program. Such legislation -- **AB 1758 (Umberg)** -- was enacted on April 18, 2006. Planning grants for cohort two schools were issued in 2006-07. In March 2007, the State Board approved implementation grants for 408 cohort two schools. Of these schools, 187 were in decile 1 and 221 were in decile 2.

To date, all eligible decile 1 and 2 schools that have volunteered to participate in the program have been funded. A total of xxx decile 1 schools and xxx decile 2 schools have opted not to participate in the HP program.

The second cohort of HP relies on the 2005 base API. CDE has indicated that a new 2006 decile ranking will be released soon that may generate additional decile 1 and 2 eligible schools for the HP program. If an additional cohort were funded, these schools would be given first priority as long as they had not already participated in the program. Next priority would be given to schools in decile 3 of the API.

Governor's Budget Proposal: The Governor's budget proposes a total of **\$243 million** in 2007-08 for the High Priority (HP) Schools Grant program, the same level of funding appropriated in 2006-07. Of this amount, the budget continues:

- **\$201 million** for a second cohort of HP schools. The budget specifies that annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year.
- **\$10 million** (or whatever greater amount is necessary) to support schools working with School Assistance and Intervention Teams (SAITs) or schools subject to sanctions by the SPI.

In addition to the \$243 million for HP School Grants, the Governor's budget proposes **\$6.0 million** for state corrective actions for non-Title I schools working with School Assistance and Intervention Teams or non-Title I schools subject to state and federal sanctions after participating in the Immediate Intervention/ Underperforming Schools Program (II/USP).

The Governor's 2007-08 budget also proposes to revert **\$49 million** in funds appropriated in 2005-06 for the second cohort of HP. These funds were never expended due to delays in the enactment of legislation required to establish exit criteria for the program as a condition of expenditure.

Costs of the Current HP Program: The Department of Education estimates current year and budget year costs for the HP program of \$130 million for each year, reflecting current program commitments. As a result, there are more than **\$100 million** in funding balances for the program in both 2006-07 and 2007-08, as currently proposed by the Governor.

	2006-07 (Budgeted)	2007-08 (Proposed)
Appropriations		
Cohort Two Schools	\$201,000,000	\$201,000,000
SAIT	-/+ \$10,000,000	-/+ \$10,000,000
Total Appropriations	\$243,000,000	\$243,000,000
Expenditures		
Cohort Two Schools (408)	\$101,987,400	\$101,987,400
CSR Conversion Schools (71)	\$25,821,484	\$25,821,484
Remaining Schools (28)	\$1,314,800	\$1,314,800
SAIT	\$1,481,750	0
Total Expenditures	\$130,605,434	\$129,123,684
BALANCES	\$102,603,566	\$104,085,316

The Governor does not have a proposal for addressing these HP funding balances. The Administration is still considering how to utilize these fund balances in conjunction with recent findings from the HP evaluation.

CDE Recommendations: The Department of Education recommends two proposals for utilizing some of the \$100 million in fund balances available for the HP program within the Governor's HP proposal for 2007-08.

- **District-Based Interventions.** CDE proposes **\$46 million** in local assistance funds in 2007-08 to provide grant allocations to school districts with HP schools in deciles 1 and 2 that would be used for specific district-activities directed to support of HP schools and staffs. The cost of the program would grow to **\$80 million** in 2008-09, based upon projections of future savings from cohort two. Research on school improvement as well as a recent evaluation of the HP program point to the important role that districts play in school improvement, suggesting the need for the state to switch from a school-based accountability and intervention system to a district-based system.

CDE proposes **\$241,000** and **2.0 positions** for state operations related to administration and support of this new program.

- **Alternative School Improvement.** The Department of Education proposes to use **\$4.0 million** of the 2007-08 funds to develop a two-year pilot program for assisting and intervening with alternative schools that are either not currently eligible to participate or cannot appropriately benefit from the HP program as it is now structured. The objective of the pilot program would be to develop suitable HP program requirements for alternative schools and to validate them with a limited cohort of these schools prior to offering the program more broadly. The pilot would provide immediate support to the cohort of alternative schools selected for participation. Goals of the pilot program are to develop HP eligibility, implementation and accountability requirements for alternative schools.

Last year, CDE sponsored AB 2254 (Umberg), which would set aside \$10 million in new HP funding for grants for alternative schools to participate in the program.

CDE also requests **\$241,000 and 2.0 positions** for state operations related to administration and support of this pilot program.

According to the Department of Education, most of the state's more than 1,000 alternative schools participate in the Alternative Schools Accountability Model, and as such do not generate a valid API that allows them to participate in the HP program. Alternative schools, which include community schools, community day schools, continuation high schools, county court schools, and state Division of Juvenile Justice schools, serve students who have not been successful in traditional programs. While they do not have a valid API, most of these schools perform at or below the equivalent level of decile 1 or 2 schools. Given the needs of their students, and their low-performance, alternative schools could also benefit from state improvement funding and interventions to improve outcomes for their students.

Recent HP Evaluation. A recent evaluation conducted by American Institutes of Research found that achievement gains for HP schools were only slightly higher than gains in similar schools that did not participate in the program. The evaluation suggested that the minimal effect might have been a result of the basic design of the program in which a relatively short-term injection of funds is insufficient to affect long-term school performance. These findings were similar for an earlier evaluation of the II/USP program. The HP evaluation recommended that:

- Role of the school district be enhanced in the system.
- Long-term role of external evaluators be explicitly clarified.
- CDE should target failure early.
- Timing of funds should be carefully considered for the next cohort.
- Clear guidance needed on how to integrate HP objectives and API growth targets into a Single Plan for Academic Achievement.

LAO Recommendations: The LAO makes the following recommendations for addressing current year and budget year HP funding balances.

- **2006-07 Fund Balances.** The LAO would give first priority to capturing the estimated \$100 million in funding balances in 2006-07 as savings to reduce the 2006-07 Proposition 98 minimum guarantee.
- **2007-08 Fund Balances.** The LAO would also give first priority to savings options for the \$100 million in HP funding balances proposed by the Governor in 2007-08. The LAO cites findings from the II/USP and HP evaluations conducted by AIR that found no significant impact for schools. However, the LAO notes that these same studies found positive effects for schools resulting from district-level activities. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools. For this reason, the LAO also supports CDE's proposal for district-based interventions. In addition, the LAO also supports CDE's pilot program for alternative schools improvement, reflecting findings from a special report on this topic.

COMMENTS: The Administration is still considering options for addressing the more than **\$100 million** in funding balances for HP program in both 2006-07 and 2007-08, as proposed by the Governor's January 10 budget. General funding options include:

- **Capture Savings.** Savings from 2006-07 could be captured as savings or reappropriated for HP in 2007-08, thereby reducing the cost of the program in that year.
- **Fund New Program Elements.** Funding could be provided for a new district-centered intervention program and alternative schools improvement program as recommended by the CDE and LAO.
- **Fund New Participants.** Funding has been offered to most decile 1 and 2 schools. Therefore decile 1 and 2 schools that have not already participated in the program and decile 3 schools would have priority for a new cohort of funding. Funding for another cohort of 408 schools would cost approximately \$130 million a year for three to four years.
- **Reevaluate Continued Investments in HP School Grants.** Given the limited success of providing short-term funding to low-performing schools, as found by recent evaluations of the II/USP and HP programs, the state may wish to reevaluate the effectiveness or policies to provide grants to low-performing schools. Instead, the state may wish to consider investments providing ongoing resources to economically disadvantaged students, regardless of where they attend school. Findings from the recent "adequacy" studies confirm the strong relationship between poverty and low achievement. As a result, the state may want to consider further investments in the Economic Impact Aid program, which provides ongoing funds to schools for economically disadvantaged and English

learner students. The state has committed over **\$2.0 billion** in programs for low-performing schools in recent years. In addition, the state will provide **\$2.8 billion** to low-performing schools over the next seven years as a part of the Quality Education Improvement Act enacted last year.

Staff recommends that the Subcommittee ask the Administration about what options they are considering for appropriating the 2006-07 and 2007-08 funding balances for HP program and how this relates to the Williams agreement.

ISSUE 10: Standardized Testing and Reporting System (STAR) and California English Language Development Test (CELDT)

DESCRIPTION: The Governor proposes to continue an estimated **\$4.5 million** in 2007-08 to cover the costs of providing a 2nd grade STAR test, although that test sunsets at the end of 2006-07. As a part of their recommendations for improving accountability for English learners, the LAO recommends that **CDE study the feasibility of developing a vertical scaling system** for the STAR program in order to track progress for individual students from year-to-year. The Governor continues **\$1.4 million** in carryover funds for the development of a test of English language proficiency for English learners in kindergarten and 1st grade, pursuant to the requirements of the No Child Left Behind Act.

BACKGROUND: The Governor's budget provides **\$117.9 million** in funding for state assessments in 2007-08. (**Attachment E** lists and describes these state assessments.) This includes **\$85.1 million** in Proposition 98 funds and \$32.8 million in federal funds. The Governor's budget essentially continues funding for assessment programs at the 2006-07 and does not reflect any new outlays for statewide assessments.

Funding for state assessments are utilized for the following purposes: 1) reimbursing school districts for their local costs of administering the tests, and 2) paying for the statewide costs of developing and maintaining these tests, including payment to the private companies that develop the test items.

The Governor's budget does not reflect any major policy initiatives on testing, with the exception of a proposal to continue STAR testing 2nd graders, which is discussed below.

Continuation of Funding for STAR 2nd Grade Test. The current state testing system was created by legislation passed in 1997. The existing program was re-authorized in 2004 by SB 1448 (Alpert), Chapter 233, which re-authorized the state testing system for grades 3-11 until 2011 but only re-authorized the test for 2nd grade until June 30, 2007. Unless this law is changed, there will be no legal authority for the continuation of the state system in 2nd grade beginning July 1 of this year.

The Governor proposes trailer bill legislation to extend the authorization for 2nd grade testing until July 1, 2011, when the rest of the program sunsets. Accordingly, the Administration continues funding for 2nd grade testing in the 2007-08 budget. CDE estimates the state spends **\$4.5 million** a year for administration of the 2nd grade STAR test. The Administration supports ongoing second grade testing for the following reasons:

- Second grade tests provide the only statewide assessment of whether or not a student has mastered basic reading skills. Testing in subsequent grades is focused on subject matter/content knowledge.
- Without second grade testing, the first information about student performance, related to state aligned standards, would not be available until the beginning of fourth grade.

Second grade testing is currently used to measure placement of students in third grade. Later identification of students who need additional support can be detrimental to student achievement.

Comments: The Governor's proposal to extend 2nd grade testing is a policy issue, not a budget issue. However, if current law is not changed to extend the sunset of 2nd grade testing, there will no authority for expending the **\$4.5 million** proposed for the exam in 2007-08. As a policy matter, the issue of 2nd grade testing is not without controversy. Some advocates argue that 2nd grade testing is developmentally inappropriate, takes time away from classroom instruction and does not provide diagnostic data that can help inform instructional practices or identify areas that students need help in. Others argue that the 2nd grade tests are developmentally appropriate by design, take about one hour a day for six days, and provide valuable information to parents and teachers about how students are doing in reading and math that can be utilized to address student needs beginning in 3rd grade, rather than 4th grade. Per DOF, the estimated savings for the sunset of the 2nd grade STAR test is **\$2.0 million** in 2007-08 and **\$4.3 million** in future years.

LAO Recommendation for Vertical Scaling of STAR. As part of its recommendations regarding English learners, the LAO recommends that the state's STAR system be revised to be "vertically scaled" – that is, so that performance levels mean the same thing in each grade. This would allow the state to measure student gains and losses across years. The LAO notes that this data is particularly important for English learners, because aggregate comparisons of how English learners perform as a group from one year to the next are not particularly meaningful because the students classified as English learners change every year due to redesignation and immigration. As a first step, the LAO recommends that the CDE be required to contract out for a report on the feasibility of this change.

Comments: The state already collects vertically scaled data the CELDT, which is used to assess the progress of English learners in acquiring skills in speaking, reading, and writing English. The availability of vertically scaled data would allow the state to apply to the federal government to receive more flexibility in implementing NCLB. The LAO recommendation for a CDE feasibility study seems like a reasonable first step.

K-1 CELDT Testing in Reading and Writing. NCLB requires that states develop testing systems in specific areas. In a recent review of California's testing system, the federal government cited the state for not testing English learners in grades K-1 for reading and writing skills. CDE notes that CELDT already tests K-1 English learners for *listening* and *speaking skills*. The federal NCLB requirement would add *reading* (e.g., letter recognition) and *writing* (e.g., tracing letters) components to the test. Previous budgets have contained funding for this purpose, but legislation required for expenditure of funds has not been successful. The Governor's budget continues **\$1.4 million** for the development of this test, subject to legislation in 2007-08. Once developed, the administration of the new test elements cost approximately \$1 million annually.

Comments: The Department of Education is sponsoring **SB 827 (Padilla)**, which is intended to add the federal assessment requirements for K-1st grade English learners.

ISSUE 11: California High School Exit Exam (6110-113-0001/0890)

DESCRIPTION: The Department of Education will provide an update on implementation and outcomes for the California High School Exit Exam (CAHSEE) for the Class of 2006. The Class of 2006 was the first group of students required to pass CAHSEE in order to graduate from high school with a diploma. The Governor's budget proposes an additional **\$270,000** for CAHSEE administration in 2007-08 to increase the number of times 12th graders can take the exam. The Governor's proposal would allow 12th grades to take the test up to five times, rather than three times as currently allowed.

BACKGROUND: The Governor's budget provides a total of **\$21.5 million** for maintenance and administration of the CAHSEE in 2007-08. This includes **\$10.9 million** in Proposition 98 funds and **\$10.6 million** in federal funds. The Governor proposes to continue funding at comparable levels to the 2006-07 budget, with a small decrease overall to reflect lower program costs in 2007-08.

Governor's Budget Proposal – 12th Grade Test Administrations. CAHSEE funds are available for seven administrations of the exam annually. Under current regulations, 12th grade students may take up to five administrations of the exam; 11th grade students may take up to two administrations; and 10th grade students are required to take one administration. The Governor's budget proposes to add \$270,000 to allow 12th graders to take CAHSEE up to five times, rather than three times as currently allowed.

CAHSEE Passage Rates. The class of 2006 was the first graduating class to be subject to the requirement that students pass the California High School Exit Exam in order to graduate from high school and receive a diploma.

According to the most recent data collected by CDE, nearly **40,000** seniors from the class of 2006 did not pass by the end of the 2005-06. It is unclear whether these students are still enrolled in school, as fifth grade seniors, Adult Education students, or as Community College students. The 2006-07 budget provides \$10 million for Community Colleges non-credit programs to assist students failing CAHSEE.

According to CDE, **91 percent** of all students in the class of 2006 passed the CAHSEE. This does not include students who were scheduled to graduate by 2006 but dropped out before they got to their senior year. However, this rate varied by school and by subgroup. The chart below contains the latest passage rates by student subgroup as provided by the Department of Education.

**12th Grade Passage Rates,
Class of 2006**

	Class of 2006
All Students	91%
Economically disadvantaged	86%
English learner	76%
Special education	48%

**11th Grade Passage Rates,
Class of 2006 & 2007**

	Class of 2006	Class of 2007
All Students	78 %	79%
Economically disadvantaged	66%	68%
English learner	51%	52%
Special education	36%	34%

**10th Grade Passage Rates,
Class of 2006, 2007 & 2008**

	Class of 2006	Class of 2007	Class of 2008
All Students	73%	75%	73%
Economically disadvantaged	48%	50%	51%
English learner	30%	31%	27%
Special education	19%	20%	21%

Comments:

- **What Happens for Students Who Have Not Passed CAHSEE?** While passage rates have been increasing for students planning to graduate, 40,000 students in the class of 2006 did not pass CAHSEE. What has happened to these students? Did these students make additional attempts at passing CAHSEE after June of 2006? What were the outcomes for these students?
- **CAHSEE Evaluation.** Funding has been available in recent years for ongoing, independent evaluations of the CAHSEE exam. These continuing evaluations have been conducted by Human Resources Research Organizations (HumRRO). What is the status of these evaluations? What are the findings and recommendations of the latest HumRRO report?
- **CAHSEE Study of Educational Experience of English Learners and Students with Disabilities.** The 2006-07 budget provided CDE \$100,000 for a study of English learners and students with disabilities in the Class of 2006 who had not passed CAHSEE, given the lower passage rates for these students. The study will identify and consider intervention services provided to these students. When will this study be completed? Can CDE offer any preliminary findings from this study?

ISSUE 12: CAHSEE Supplemental Intervention Services (6110-204-0001) and CAHSEE Workbooks (6110-485)

DESCRIPTION: The Governor proposes **\$72.4 million** in 2007-08 to continue ongoing funding for CAHSEE supplemental intervention services for 11th and 12th grade students who have not passed CAHSEE. The Governor also proposes **\$5.5 million** to continue one-time funding for purchase of individualized CAHSEE workbooks for these same students in 2007-08. The Department of Education will provide an update on how districts are utilizing their supplemental instructional and support service funds and the effect of these services in improving CAHSEE passage rates.

BACKGROUND:

Supplemental Instructional Services and Support. The 2006-07 budget provided an increase of \$49 million for supplemental instructional services and supports designed to assist 11th and 12th graders who have not yet passed the CAHSEE. This brought total funding to \$70.0 million in 2006-07 for ALL eligible students. (Previously there was separate funding for students served by general and special education programs/services.) The Governor proposes to continue this increase, and provides a COLA for the program, for a total proposed funding level of **\$72.4 million** in 2007-08. The Governor also proposes to hold the program harmless from the negative statewide growth.

Individual Workbooks. The 2006-07 budget provided an allocation of **\$5.5 million** in one-time funds to LEAs for the purchase of State Board of Education (SBE) approved CAHSEE intervention materials for 11th and 12th grade students who have failed the CAHSEE. The budget language required CDE to select and recommend intervention materials for SBE approval. The CDE recommended three submissions for approval by the SBE, which were approved in March 2007. The \$5.5 million from the 2006-07 budget is scheduled to be allocated to LEAs in mid-May.

The Governor proposes to continue funding for CAHSEE workbooks at **\$5.0 million**, in 2007-08, using one-time funds from the Proposition 98 reversion account. The Governor proposes to continue similar budget language and requirements for the program in 2006-07. LEAs would be eligible for funding of up to \$20 for 11th and 12th grade students who have failed one or both parts of the CAHSEE. CDE would be required to select a vendor or vendors to develop and produce study guide workbooks. Study materials must:

- assist students in mastering standards necessary for passing CAHSEE;
- include a computer-based component that adapts to each student's specific remediation needs; and
- include appropriate professional development support for teachers.

CDE Recommendations: CDE recommends the following changes with regard to the Governor's proposal for CAHSEE workbooks:

- Remove the requirement for materials review from proposed trailer bill language. If this change is not possible, CDE recommends that the review be funded at \$10,000.
- Change trailer bill requirement to allow CDE to fund "up to" \$20 per student. CDE anticipates that the current funding amount will not allow for an allocation of \$20 per student. According to the CDE, the 2006-07 budget does not contain sufficient funds to allocate \$20 per pupil; it is under-funded by \$33,000. The 2007-08 budget proposes less funding overall and is expected to be under-funded by approximately \$533,000 since it provides \$5 million rather than \$5.5 million.

Comments: The Governor proposes \$5.0 million in one-time Proposition 98 funds for workbooks in 2007-08. Staff recommends that the Subcommittee not continue this one-time funding for CAHSEE workbooks, as first provided in 2006-07. Instead, staff recommends that funding for workbooks be funded as a part of the \$72.4 million in ongoing funding proposed by the Governor for CAHSEE supplemental instruction and support in 2007-08.

ISSUE 13: Supplemental Counseling Program for Grade 7-12 Students (6110-108-0001)

DESCRIPTION: The Governor's Budget provides funding of **\$208 million** to schools to continue funding for the Supplemental School Counseling program in 2007-08. The 2006-07 budget provided \$200 million for this new program to increase counseling services for students in grades 7-12. Priority for counseling services is given to students who are at-risk of not passing or who have not passed the California High School Exit Exam (CAHSEE) as well as students who are at-risk of not graduating high school due to insufficient credits. The Department of Education will provide an update on implementation of this new Supplemental Counseling program.

BACKGROUND: The 2006-07 budget provided \$200 million in ongoing funds for a new block grant to support additional counseling services for students in grades 7-12. The Governor proposes to continue this program at last year's funding level, along with an increase for a COLA, at a total proposed funding level of \$208 million. As with EIA and other programs, the Governor proposes to hold the program harmless from negative statewide growth by not adjusting the total funding level downward.

As a condition of receiving Supplemental Counseling funds, participating districts must do the following:

- Give priority in receipt of the additional counseling services to students who have not passed the California High School Exit Exam (CAHSEE), are at risk of not passing the CAHSEE, or risk not graduating due to insufficient credits.
- Hold a meeting between a counselor, the student, and the student's parents for the following types of students at risk of not graduating: 7th graders who score below basic on the California Standards Test; 10th graders who fail the CAHSEE on their first try; and 12th graders who have not yet passed the CAHSEE. The meeting must identify coursework designed to help students meet state standards, pass the CAHSEE, and obtain sufficient credits to graduate, and this information must be included in the identified students' files as they move from grade level to grade level.

COMMENTS: CDE has indicated that its initial attempts to implement the program yielded fewer-than-expected applicants. It subsequently extended the deadline for application with greater success and will provide an update on the most recent number of applicants and the status of funding allocations.

County offices of education argue that they should be eligible to receive funding from the program and are sponsoring legislation that would allow students they serve to participate in the program.

Issue 14: Partnership for Success Program (6110-650-0001)

DESCRIPTION: The Governor proposes **\$1.5 million** in one-time funds for Partnership for Success pilot program between K-12 local education agencies and California State University (CSU) campuses. The purpose of the program is to increase college-going and college-completion rates for participating students. Funds would be used for three partnerships that would develop and implement counseling, planning, mentoring, and other related services. Private funds would be required to match state funds for the regional partnerships.

BACKGROUND: As proposed, the Partnership for Success pilot program would provide grants totaling **\$1.5 million** to three partnerships between local school districts and a California State University (CSU) campus. State funds would be combined with private matching funds to support these partnerships.

The partnerships will develop “roadmaps” to guide participating students from middle to high school to ensure that they complete the necessary courses to meet CSU entrance requirements. The three participating CSU campuses would guarantee admission for students who complete the program and would provide necessary financial, as well as academic support services, mentoring, and academic counseling to ensure degree completion within four years.

The Partnership is intended as a reform model to foster a “college going culture” for a district's entire class of 7th grade students that follows them through middle and high school. Partnerships would achieve this culture by exposing students to a university campus through site visits, mentoring, tutoring, and on-going communication with the university. This exposure is intended to lead to improved college attendance and completion rates, as well.

According to the Administration, this proposal is modeled after the Compact for Success program, a public-private partnership between the Sweetwater Unified School District and San Diego State University.

COMMENTS: This program appears directly duplicative of the Student Academic Preparation, Outreach, and Early Assessment Programs administered by the University of California and California State University.

In the current year, the Budget Act provides \$31 million to the University of California (UC) and \$52 million to the California State University (CSU) for these programs. Under these programs, the UC and CSU partner with K-12 schools, in a regional collaborative model, to create a college-going culture as early as the fourth grade. The intent of these programs is to: (1) increase the number of students completing the A-G college preparatory course pattern in high school; (2) ensure that students complete high school (by graduating and passing the CAHSEE) or are transfer-ready (if coming from a

community college); and (3) work towards making students academically ready for a four-year college (not just UC or CSU).

In addition to the UC- and CSU-administered programs, the Student Aid Commission administers the Cal-SOAP (California Student Opportunity and Access Program) which works with parents, students, and families to provide assistance with financial issues (associated with going to college) and further increase the college-going culture.

The goals and outcomes of all these programs closely mimic the proposed “Partnership for Success” proposal by the Administration and any augmentation for this purpose would be better directed to the UC and CSU who have been administering these programs since the 1980’s.

Staff poses the following questions:

- (1) According to the Administration, this program is modeled after the Compact for Success between Sweetwater Unified School District and San Diego State University. This program has been developed utilizing existing funds available for school districts and higher education segments. Why are additional funds needed for this program?*
- (2) Does the Administration intend to fund the Compact for Success between Sweetwater Unified School District and San Diego State University or will three new CSU sites be competitively selected?*
- (3) Is this program intended as a one-time pilot program and, if so, does the Administration intend to provide additional state funding in the future to create a new statewide program or to simply provide a model that school districts and CSU campuses could fund with available resources?*

ISSUE 15. Alternative Schools – LAO Proposal

Description: The LAO will present finding and recommendations from their report – *Improving Alternative Education in California* -- published in February 2007. The report contains a number of findings and recommendations relative to alternative schools. An executive summary of the report is included in **Attachment F**. Copies of the report are available on-line at www.lao.ca.gov and will also be provided at the Subcommittee hearing.

Background: Alternative schools are specific models of schools (and programs, in the case of independent study) established by the state over a number of years to serve students (especially high schools students) who need an alternative to the regular school model due to behavioral, logistical or academic issues. The LAO report includes an analysis of the following types of alternative schools:

- continuation schools – operated by school districts
- community day schools – operated by school districts and county offices of education
- community schools – operated exclusively by county offices of education

Highlights of LAO Recommendations:

- 1) **Revise attendance rule regarding which students get included in the accountability system.** Under current law, only the test scores from those students who have been in attendance at a school from October until the time the statewide STAR test is administered in the spring are “counted” in the state’s accountability system whereby the state assigns an API score to a school based on a composite of achievement data. This “attendance rule” is also used for the state’s determination of whether a school met its annual yearly progress target for the federal NCLB accountability system. Any student who transfers to another school after October is not counted toward his or her old school’s accountability score or the new school’s score. Given that alternative schools have very high mobility rates (many students stay for less than one semester), the LAO points out that the API and AYP scores of these schools fail to accurately measure the school’s performance. The attendance rule also allows regular high schools to avoid responsibility for the progress of low-performing students by referring them to alternative schools during the year.

The LAO accordingly recommends replacing the current “entire school year” rule with one that assigns accountability scores based on each student’s “home” school. This change would assign the test scores of alternative school students to the comprehensive high school of each alternative school student.

- 2) **Revamp Alternative Schools Accountability Model (ASAM).** Under current law, alternative schools pick three performance measures from a list of 14 possible measures, and report their performance on those measures for students enrolled for at least 90 days. Many of these measures do not consider educational performance and do not allow comparisons among schools. Also, the requirement that schools only report data on students enrolled for at least 90 days excludes more than half of all students attending these schools. In addition, the state's ASAM model does not contain any consequences for poor performance.

The LAO accordingly recommends that the state revamp ASAM to focus on the goals of accelerated learning and graduation for the students that attend these schools. Specifically, it recommends a) including measures of short-term success that can be evaluated every three to six months and b) including a measure of student-level growth on state tests over time since the current testing system does not measure year-to-year growth.

- 3) **Deem independent study programs “schools” for purposes of accountability systems, and restrict use of independent study for students who are behind grade level.** The LAO found that independent study participants account for a large proportion of high school students enrolled in alternative programs. Yet, despite the frequent use of these programs, particularly for students who are not having success at regular programs, the LAO found a severe lack of data on independent study programs, how they are used, and how students do in them, since districts house these programs at various sites. The LAO accordingly recommends that independent study programs be deemed separate schools for the purposes of the ASAM. This proposal would not require districts to create separate independent study schools. Rather, the state would simply aggregate relevant test score data for all students in the program in each district and calculate an API and an alternative API for full-time independent study students in the district.

The LAO report also notes the lack of research supporting the use of independent study for students who are behind grade level and questions the apparent over-use for this particular group of students. It accordingly recommends that CDE be authorized to evaluate how well students learn in independent study programs and prohibit the use of these programs for students who score below the basic level of statewide STAR tests, if it determines that students are not making significant progress in the program.

- 4) **Restructure state program subsidies into a flexible grant.** The LAO points out a number of problems with the current system of state-funded programs with their various requirements. Each state program (community day schools, community schools, continuation schools) has a different set of funding, minimum day requirements and description of the type of student that may attend. It notes that during visits to schools, several district administrators noted a need for additional options for students that go beyond the current requirements of the state's

programs. The LAO also notes that the programs may create negative incentives that push districts to act in ways contrary to the best interests of the students, specifically: a) the state's allowance that some of these programs provide a shorter day may lead to fewer hours of instruction than at traditional high schools; b) the direct funding of county office-run programs shifts responsibility for these children away from school districts; c) sending students to county programs sometimes requires students to travel long distances and may deny them access to services available at district programs (after school programs, sports, and vocational and elective courses).

The LAO accordingly recommends combining the existing funding streams for the various state alternative school programs into a district alternative program block grant. Funding would go directly to school districts based on a formula that considers total district population as well as the number of students that exhibit significant behavioral problems. The existing state requirements for the various programs would disappear and districts could use block grant funds to support needed alternative programs, as well as implement new types of alternative programs, such as short- and long-term programs based on the needs of students.

COMMENTS: Staff recommends that the Subcommittee consider the LAO proposals to reform funding and accountability for alternative education programs. Because there may be additional costs with the alternative education reforms and given limited additional ongoing funding in 2007-08, it makes sense to look at accountability reforms first. These issues could be handled through the policy committee process.

Within the budget, the Subcommittee may want to consider how Alternative Schools could be given access to existing programs directed to low-performing schools. Most alternative schools participate in the Alternative School Accountability Model because of the high mobility of their students. Most schools that participate in ASAM do not have valid API rankings needed to qualify for special state funding improving low-performing schools, even though alternative schools perform at comparable levels to these schools.

For example, alternative schools do not have access to Emergency Facility Repair program funds available through the William's settlement agreement for decile 1-3 schools. Likewise, while alternative schools have some of the state's highest proportion of under-qualified teachers, these schools are not eligible for School Enrichment Block Grants that are directed toward recruitment and retention of qualified teachers at decile 1-3 schools. Alternative schools were also not eligible for instructional materials funds directed to decile 1 and 2 schools available as a part of the William's settlement agreement.

ISSUE 16. Community Day School Funding (6110-190-0001)

DESCRIPTION: The Governor's budget provides **\$51.8 million** for the community day school program in 2007-08. This amount reflects a \$2.0 million increase over the amount provided in 2006-07 to provide a cost-of-living adjustment. The budget does not provide growth for the program since it is not required by statute. The Department of Education proposes an additional **\$4.1 million** in 2007-08 to cover an estimated shortfall in funding for this program in both the current year and budget year.

BACKGROUND: The community day school program provides alternative placement options for students that have been expelled or who are high-risk. The program was established pursuant to Chapter 974, Statutes of 1995 (AB 922/Friedman) in conjunction with the passage of other legislation mandating that school districts expel students for certain "zero tolerance" offenses (e.g., carrying a handgun to school, etc.) The program was created to provide a new option for students mandatorily expelled for these zero tolerances offenses. State law specifies that students may be assigned to a community day school only if they are one or more of the following: expelled students, students under probation, or students referred to the school by a school attendance review board.

Districts or county offices of education running these program must give first priority to students that are "mandatorily expelled" because they committed an offense requiring expulsion under state law. Second priority is for students expelled under other offenses, and third priority is for all other students that can be served by the program.

In contrast to programs pre-dating the community day schools, which had shorter days and were generally run by county offices of education, community day schools may be run by school districts and are required to provide 6 hours of instruction a day, none of which can be independent study. Programs receive supplemental funds intended to address the additional costs of serving this population.

Enrollment and Funding: Community Day Schools (CDS) are funded both through revenue limits (general purpose funding) for students and CDS supplemental program funding. State law specifies that districts running community day schools receive an additional \$4,000 per ADA in supplemental funding beginning in the 1999-2000 fiscal year, adjusted every year for inflation. County offices of education running community day schools receive an additional \$3,000 per ADA in supplemental funding, adjusted for inflation since 1999-2000. Programs can also receive an additional \$4 per student per hour (up to two hours a day) of programs provided beyond the 6 hours a day. While supplemental CDS funding is adjusted annually for COLA, it is not adjusted for growth.

Student enrollment, as measured by ADA, has grown significantly since the new program began in 1996-97. Student enrollment grew from 862 students to 11,414 students in 2004-05. According to CDE, there are approximately 380 community day schools statewide in 2005-06 and the number is expected to reach 415 in 2006-07. The CDS supplemental funding program was well funded in the beginning, however funding has not kept up with enrollment since there is not growth factor for the program.

Fiscal Year	CDS Enrollment (ADA)	CDS Funding
1995-96	0	0
1996-97	862	\$52,593,000
1997-98	1,914	30,000,000
1998-99	3,104	20,000,000
1999-00	5,717	30,423,000
2000-01	7,218	41,377,000
2001-02	8,448	42,205,000
2002-03	10,463	42,204,000
2003-04	11,180	32,205,000
2004-05	11,414	45,060,000
2005-06	11,820	46,966,000
2006-07	11,820	49,746,000
2007-08		51,769,000

Funding for the first year of the program in 1996-97 totaled \$52.6 million; however funding was reduced in later years to reflect program demand. By 2002-03, funding was proposed at \$42.2 million. In 2002-03, the program was reduced by \$10 million as part of mid-year reductions needed to meet a statewide budget shortfall.

In 2003-04, the program was reduced by another \$10 million as part of mid-year cuts, based on estimates that the program was over-funded by this amount. As the program enrollment grew and funding fell, a shortfall for the program began to develop, since the funding formula does not recognize growth.

Deficiency Funding: When the amount provided in the budget for this program is not enough to fund enrollment, CDE must pro-rate the shortfall. This ensures that all programs receive funding, but at a reduced level.

CDE Proposal to Address Budget Year Deficiency: CDE proposes to increase CDS supplemental funding by **\$4.1 million** in 2007-08 to address an estimated program deficiency in both the current year and budget year. CDE estimates a shortfall of **\$2,023,000** in 2006-07 and **\$2,105,000** in 2007-08. The 2007-08 amount reflects funding for estimated COLA and program growth.

COMMENTS/RECOMMENDATIONS: Both the number of students and the number of schools participating in the program have grown significantly since the new program began. Until some measure of growth is provided for the program, deficiencies will continue to accumulate for the program statewide. When deficiencies occur, funds are simply pro-rated to all participating schools. In addition to the community day school program, there are several other categorical programs that CDE pro-rates funding to based upon deficiencies.

The Budget Conference Committee approved \$4.3 million in deficiency funds for Community Day Schools in 2006-07. These funds were eliminated as a part of final budget negotiations between the Legislature and the Administration.

ISSUE 17. Supplemental Instruction Funding (6110-104-0001)

DESCRIPTION: The Department of Education has requested **\$46.5 million** in additional funding for Supplemental Instruction programs -- estimated to run deficiencies in 2007-08. CDE has also been able offset shortages for one mandated program by using excess funds from the other mandated program. In addition, Budget Control Section 12.60 allows CDE to shift program savings from a list of categorical programs to address funding shortages for other programs on that list. CDE has utilized this authority to address funding shortages for Supplemental Instruction programs in the past. However, based upon 2006-07 estimates, it is not likely this source of funding can be utilized in the future.

Supplemental Instruction. The state funds four supplemental instruction programs outside of the regular school day for elementary and secondary students that are performing below grade level proficiency expectations. Programs may be offered before or after the regular school day, on Saturdays, during inter-sessions, or during summer sessions.

Schools districts receive funding at a rate of approximately \$4 per hour of instruction for all supplemental instruction programs. Funding is not based on average daily attendance (ADA). There is no specified minimum number of hours or days per pupil for any supplemental instruction program, nor is there any specified minimum or maximum student/teacher ratio for programs. There is also no requirement that supplemental instruction be provided by credentialed teachers.

Supplemental Instruction. The Governor's budget proposes **\$328.9 million** in 2007-08 for four supplemental instruction program listed below. Two of these programs are considered mandated programs because school districts are required to provide specific supplemental instruction services for students who qualify. The other two programs are structured as voluntary programs.

Mandated Programs

- **Supplemental instruction for grades 7-12 (\$238 million).** School districts are required to offer this to students in grades 7-12 who do not demonstrate sufficient progress toward passing the California High School Exit Exam.
- **Supplemental instruction for students in grades 2-9 retained or recommended for retention (\$57.5 million).** School districts are required to offer this to students in grades 2-9 who have been recommended for retention (repeating the same grade).

Voluntary Programs

- **Supplemental instruction for students in grades 2-6 with low-STAR scores and at risk of retention (\$22 million).** School districts may offer this program to students in grades 2-6 who score below grade level in math or reading/language arts or who are at risk of being retained.
- **Supplemental instruction for students in grades K-12 (core academic) (\$101 million).** School districts may offer this program in math, science, or other core academic areas. They are not required to offer this program.

The Governor's budget proposes a total funding level of **\$419.0 million**, which provides an increase of \$16 million above last year's funding level. This increase reflects a COLA for the program. The Governor proposes zero growth funding for the two mandated programs with statutory growth factors, which holds these programs harmless from negative growth adjustments. The two voluntary programs do not have statutory growth requirements.

CDE Proposal to Address Supplemental Instruction Shortfall. CDE is requesting an additional **\$46.5 million** for Supplemental Instruction programs in 2007-08 to fully fund program entitlements. According to CDE, Supplemental Instruction programs have not had sufficient funds to fund school districts at their caps. The shortfall in 2004-05 was \$29.8 million; the shortfall in 2005-06 was \$33.5 million; and the shortfall in 2006-07 (based on first Principal Apportionment data) will be \$44.9 million.

COMMENTS. With regard to the two mandated programs, CAHSEE grade 7-12 remedial has had excess funds in 2004-05 and 2005-06 that have been able to offset funding shortfalls in the grade 2-9 retention program. Together with additional program savings available through budget Control Section 12.60, shortfalls for mandated programs were fully offset in 2004-05 and offset by 75 percent in 2005-06. (Budget Control Section 12.60 gives CDE the authority to shift unexpended funds from a list of categorical programs to fund shortfalls in other programs on the list.)

CDE has been able to utilize this authority to shortfalls in the mandated programs in the past, but they must obtain approval from DOF to use the savings to fund shortfalls. It is unclear to what extent savings will be available to fund these shortfalls in 2006-07 and 2007-08.